TURK TELEKOM

Moderator: Onur Oz
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Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Turk Telekom Q3 2015 results webinar.

During today’s webinar all lines will be in a listen-only mode. There will be presentation followed by question and answer session. At which time, if you wish to ask a question, you will need to press star and one on your telephone.

I would like to advise you the webinar's being recorded today, Wednesday October 21, 2015. I will now hand over to your speaker, Mr. Onur Oz. Please go ahead, sir.

Onur Oz: Hi, everyone. Welcome to our third-quarter results release call.

Today's speakers are Turk Telekom's CEO, Rami Aslan, and CFO, Murat Kirkgöz. Before we start the call I'd like to remind you kindly to review our notice in our second page of the presentation. Before further ado, I hand over the call to Mr. Rami Aslan.

Rami Aslan: Good afternoon. Thank you for joining our call. We will run you through the operational and financial highlights of the third-quarter results of Turk Telekom today.

Let us start with slide number 3. It's been a robust quarter operationally. Our subscriber net gain performance was strong in mobile. We added net 239 thousand subscribers and more than 70 percent of these were postpaid customers. With this performance, our postpaid customer ratio in the mobile customer base is now over 50 percent.

In broadband, we brought in 94 thousand net subscribers, out of which more than 90 percent were fiber customers. And on TV business, we started to reap the benefits of our investments in content and platform, and reached a net subscriber addition of 56 thousand

On the back of this strong operational performance our revenues grew 7.3 percent, excluding the non-operational accounting adjustment related to construction revenues. With this quarter's growth performance, we reached 6.7 percent growth in the first nine months compared to the same period of last year. This means that growth-wise, we are close to the upper end of our guidance.

This quarter, we had a few one-off items that affected our reported EBITDA. Murat, our CFO, will run you through these one-offs in the financial section. Excluding these one-off items, our EBITDA was flat year on year and our EBITDA margin reached 37 percent.

The FX movements affected our net income dramatically this quarter and the unrealized FX loss we booked this quarter brought our net income to negative TL 493 million.

Moving onto slide number 4, in which we have the consolidated financial summary. I have mentioned revenue, EBITDA and net income in the previous slide, so let me discuss CAPEX. Our CAPEX reached TL 992 million in the third quarter. For the full year, we are revising our guidance on CAPEX.

As you know we have acquired very valuable spectrum in the recent auction and positioned ourselves to lead the market in the mobile services based on the next-generation mobile technology. In addition to this, we have now comparable spectrum in the 900 MHz band, in which we have been left behind the other players for years and suffered disadvantage. Now that this disadvantage is removed, we will increase our investments to utilize this band in the best way we can.

Due to the accelerated mobile network investments and the impact of currency depreciation on CAPEX, we revise our CAPEX guidance for the year 2015 to around TL 2.9 billion, excluding spectrum license fees.

Moving onto slide number 5. More than 70 percent of our revenues come from relatively high growth areas, namely mobile, fixed broadband and corporate data.

The share of fixed voice business in the mix declined to 18 percent, down from one-third a few years ago. In the meanwhile, we have maintained an annual average growth rate of almost 5 percent and an EBITDA margin of mid to high 30s, which demonstrates that we have been managing a smooth transition from being a fixed-voice incumbent to a fully integrated telecom operator.

The next slide, slide 6, we have our fixed broadband performance. We recorded a 5 percent growth in revenues from our fixed-broadband business. We recorded a slight increase in our ARPU, while our subscriber number has increased by 94 thousand. More than 90 percent of our net additions in fixed broadband are from fiber-based tariffs, which demonstrates that there's a strong appetite from our customers for premium products.

Together with our corporate data revenues, fixed broadband more than offsets the decline in fixed-voice revenues. Our total fixed-line business grew 2 percent this quarter year on year, while maintaining an EBITDA margin at 45 percent excluding one-off items.

In slide 7, we show our upsell figures. As of the third quarter, percentage of our customers who use up to 16 mbps and higher speeds is above 70 percent. We moved more than 90 percent of our customer base to unlimited tariffs with fair usage levels defined in them.

And in terms of fair usage, our customers increasingly prefer higher fair usage points. We expect this trend to continue and form a healthy base for us to resume upselling, considering the appetite for capacity in the market is still very high.

Next slide, slide 8. Our fiber network is by far the largest and strongest infrastructure in Turkey. Our vision and years of hard work and investments brought us to this point, where there is one of our most valuable assets for fixed-line or mobile services. As of the third quarter, we reached a total fiber subscriber of 1.34 million, by far the highest number in the market.

On homepass figures, we also lead and expand. Our total homepass reached 11.6 million this quarter, of which 3.2 million is FTTH/B, and 8.4 million is FTTC.

Next slide, slide 9. You all know we had exciting initiatives in our TV business. This summer we launched our satellite platform, which will exist side by side with our IPTV platform, and we started broadcasting one of the most valuable contents in the world, the UEFA Champions League and Europa League games.

These are early results and we are encouraged by them. We recorded a net subscriber addition of 56 thousand to our home TV service, Tivibu Home, and reached almost 350 thousand as of the third quarter. In addition, our mobile and Web platform Tivibu Go subscribers also started increasing.

With our simple tariff structure, rich content and enhanced access through satellite, we aspire to be the TV platform of choice for all the customers in our market.

Moving on to the mobile business on slide 10. Strong revenue growth trend in mobile continued in the third quarter with a 14 percent year on year growth.

This quarter we recorded a few one-off expenses, which reduced our EBITDA. One-offs are mainly due to becoming a bit more conservative in our bad debt assumptions especially in our device sales as well as a few regulatory fee provisions. Murat will talk about these one-offs, but when we exclude these items; our EBITDA is TL 223 million, with an EBITDA margin of 17 percent.

Next slide, slide 11. We recorded 239 thousand net subscriber additions in mobile this quarter. More than 70 percent of these came from postpaid tariffs, which shows our focus on bringing in high-value customers. With these postpaid net additions, our postpaid customer ratio exceeded 50 percent and we continue to lead the market in this important point.

We also increased our ARPU by 8 percent this quarter, which was driven by both prepaid ARPU increase and postpaidization trend.

Next slide, looking at the subscriber dynamics in more detail in slide 12. A few important trends that we maintained or started this quarter are, first, our net additions are coming in with lower churn rates, meaning that we do not see very high gross additions and very high churn rates anymore. This is a healthier trend and we are glad to see that our investments in our network, brand and customer service ensure that the customers we attract are more and more satisfied with the enhanced services we provide with our customers.

Second, the portion of net additions we acquire through mobile number portability declined. This means that our mobile business is becoming more attractive to new mobile users in the market. And our contribution to the market growth is on the rise.

On slide 13, we have our mobile data highlights. Mobile data revenues grew 38 percent year on year in the third quarter. Mobile data revenues, not including SMS or value-added services, make up about 30 percent of our mobile service revenues. If you include SMS and value-added services, the ratio is 39 percent.

Smartphone penetration in our area, we have been leading all along, and we improved ourselves to 64 percent penetration this quarter. This is one of the most important growth drivers of mobile data usage and revenues.

Finally, I'd like to say a few words on the recent spectrum auction that took place in August. The auction offered a wide range of spectrums, from 800 MHz to 2600 MHz. The most critical ones in our view were the bands below 2 GHz, namely 800, 900 and 1800. As Turk Telekom, we obtained the strongest position in the sub-2 GHz frequency bands.

In 1800 MHz, which is very critical for 4G LTE network, we acquired the top position with 2x35 MHz.

In addition to the new frequency bands being offered, we also had the opportunity to level our position with the competition in 900 MHz band by acquiring the largest package offered in this band in the auction. This will remove a longstanding disadvantage we endured in providing 2G services starting from December 1.

When we look at the subscriber market shares of the operators and their spectrum positions you will notice that we are the only operator with a higher spectrum market share than subscriber market share. This is a clear sign for strong growth potential.

Finally, on pricing, we believe we applied the most effective bidding strategy and ended up paying the least premium over the reserve prices, as well as the lowest fee per MHz acquired compared to the other operators.

I will now hand the call to Murat, our CFO, for the review of the financials.

Murat Kirkgoz: Thank you, Rami. Good afternoon and good morning, everyone. Q3 reported revenues reached to TL 3.7 billion, growing 5 percent versus last year and also last quarter. Our operational revenue, excluding IFRIC 12 accounting adjustments, growth was 7.3 percent versus last year.

In EBITDA line, our EBITDA reads as TL 1.269 billion in Q3. However, as Rami mentioned, Q3 EBITDA was affected by one-offs, such as bad debt assumption changes and provisions for regulatory fines and taxes.

The regulatory and tax fines are a result of, mostly, due to the different interpretation of the basis of mobile-specific taxes between government bodies and the market practice. But for bad debt, we have reflected a prudent approach in reflecting the recent trends in our management assumptions. Excluding these one-offs, our EBITDA is broadly in line with last year's and is TL 1.361 billion.

Our operating profit margin is about at 18 percent, declining partially due to both one-off expenses and as well the increase in amortization/depreciation line.

The net income negatively affected due to 15 percent devaluation of the Turkish lira last quarter, reading as TL 493 million. While it's worth mentioning that the FX losses in this quarter were mostly unrealized and we already see a revaluation in the first three weeks of the fourth quarter.

Moving to page 16, the balance sheet, you would observe that we have both acquired assets higher than our amortization figures in Q3 and growing our asset base as a reflection of our increasing CAPEX rollout.

The cash in the quarter had substantial increase versus the Q3, and that's a result of our strong cash flows within the quarter. While the interest-bearing liability grew to TL 12 billion, mostly due to the FX losses and the cash movements on our debt was insignificant within the quarter.

Moving to page 17, we had a growth of 12 percent on our year-to-date operational cash from our operating activities. And our Q3 was a strong quarter in terms of cash flow generation, with about TL 650 million cash flows from operations on the free cash flow line. And we have ended the quarter at TL 2.8 billion cash, with a growth of TL 770 million increasing cash versus end of second quarter.

Moving to page 18, as of end of Q3 we have a very resilient balance sheet with relatively low leverage ratio of 1.79 and an average debt maturity of 3.6 years. The long tenor of our debt and access to liquidity gives us a strong position against FX volatility from transaction risks related with liquidity.

We constantly evaluate our FX exposure on our debt depending on the market conditions and we took the opportunity to reduce the exposure through the year. Firstly, we have swapped our repayment of $500 million bonds maturing in 2024 to euros. And additionally, in second quarter in July we have converted our $500 million liability to Turkish lira.

In this quarter, we also increased hard currency portion of our cash in our cash holdings. And as a result of these initiatives our net hard currency exposure in dollars decreased by $1 billion versus the year end. And in Turkish lira terms, it remained flat, again versus the year end, at a level of quite TL 9 billion range.

On the right graph top you can see, following our dollar and Turkish lira transactions, our currency breakdown for our gross debt; it's transformed into 51 percent dollars, 32 percent euros and 17 percent Turkish lira as of end of Q3. As a position, we don't foresee any complications in funding or refinancing given the wide range of creditors we work with and our excellent standing with them. Even we anticipate an improvement in our borrowing terms and conditions in this quarter.

I pass the word to Onur.

Onur Oz: We can open it up for Q&A now.

Operator: If you wish to ask a question, you will need to press star and one on your telephone.

Your first question comes from the line of Ranjan Sharma of J.P. Morgan.

Ranjan Sharma: Hi. Good afternoon and thank you for the presentation. It's Ranjan Sharma from J.P. Morgan. Two questions from my side. Firstly, on the 4G services, can you indicate what the pricing strategy is going to be? Are you going to price it similar to 3G services or are we going to see a premium?

The second question is on dividends. Should investors be concerned about any downside as to dividends from increasing leverage, especially coming through from the depreciation of the lira? Thank you.

Rami Aslan: Thank you, Ranjan. Good question. Starting with the first question relating to 4G services, first of all, I think let me go over what we have done in the spectrum because clearly that was an exercise that's very recent and some of you are digesting the numbers.

We believe that we have acquired a great spectrum and we believe that in the 800, 900 and 1800, as I mentioned earlier, we acquired the best possible spectrum and highest amount of spectrum as well, which will help us lead and transform our mobile services. And also, with the 900, the disadvantage that we had over the past several years, many years, is now gone.

So we have a great opportunity with the 4G coming in early April 1st next year and before that, having also the ability to use the 900, starting from December of this year, so about four months before transforming our network and our capacity and the customer experience as well.

So in terms of pricing, if you look at the spectrum, we were the operator that got very respectable and very high spectrum at very little premium compared to others. So we paid about 16 percent premium over reserved price, versus competition that paid significantly higher premiums.

And with that, we believe that we are the most or the best-positioned operator as an operator that's well positioned to get the best returns on the money invested in that spectrum. We do believe that we have a great opportunity there.

Secondly, we have invested heavily in the infrastructure leading to this date because; as you know we have a major fiber infrastructure. We are the leader in the fiber infrastructure in all of the cities of Turkey, from end to end across the entire geography of Turkey. And that will be positioning us really well to be a leader in the 4G services as well.

In terms of dividends, the dividend is a function of profitability and we do not anticipate a major issue. If you look at the leverage, yes, the leverage has gone up over the past few quarters, but it's predominantly because of the Turkish lira weakness over the last few quarters.

But the fundamentals of our cash flow and the strength of our cash flow generation, our ability to deleverage, remains very strong. And we don't anticipate leverage to remain at those levels, but rather to continue to decelerate, given the strong cash flow and the potential cash flow of our Company and the profitability of our Company.

So we don't anticipate any change of policy and we hope that we've seen a bit of a recovery from Q3. The Q3 levels of FX were slightly higher than where we are today, so we hope that this trend will continue to subside and that will help us recover some of the unrealized losses of the quarters back in Q4. Thank you.

Ranjan Sharma: All right. Thank you. Can I just have a quick follow-up? On the pricing, do you know or can you share how 4G services are going to be priced with respect to 3G services?

Rami Aslan: At this stage probably it's premature, Ranjan, but we are sure that it's a rational environment and that all operators would be focused on getting the ample return. And there's a good rationalization, as you've seen in the last few quarters, so we don't anticipate that trend to change.

Ranjan Sharma: All right. Thank you.

Rami Aslan: Thank you, Ranjan.

Operator: Your next question comes from the line of Hanzade Kilickiran of Barclays.

Hanzade Kilickiran: Thank you for the presentation. I have two questions. The first one is regarding – actually three questions. The first one is regarding CAPEX. Is it possible for you to give us a breakdown of this CAPEX as fixed and mobile in terms of guidance?

And the second question is your one-off expenses. You mentioned that you – these are one-off, but you prefer to have a more conservative approach on the bad debt assumption. So is it really going to be one-off or in 2016 and the other years that would mean we should be using a higher ratio? So it doesn't sound to me a one-off expense.

And actually this is also related – the third question is related to this. What is the margin that you are seeing in the mobile business now?

Rami Aslan: Thank you, Hanzade. I'll pass you to Murat. But just to answer the first question quickly, we actually don't provide a breakdown between fixed and mobile, so unfortunately we cannot provide that CAPEX breakdown. But for the one-offs and the margins, maybe Murat can give you a good answer.

Murat Kirkgoz: Sure. Sure.

Hanzade Kilickiran: Is there a specific reason for not providing this CAPEX breakdown? Is there competition or?

Rami Aslan: The actual we do provide, the guidance we don't.

Hanzade Kilickiran: OK. All right.

Rami Aslan: Thank you.

Murat Kirkgoz: Sure, but back to your question about bad debt, we have been observing that devices are getting more and more important element in our postpaid customer growth and there is an increasing share of devices in our customer base.

And these contracts are now having a maturity of roughly 15, 16 months, so we have a very good understanding of the collection behavior of the customers and this element.

So we choose to follow a prudent approach to recognize the bad debt adjustment for the whole inventory lines. So this is the reason of the one-off adjustment of TL 46 million.

And going forwards, the Company has - definitely is taking initiatives to improve the collection, to ensure the credit worthiness of the customers, and also the pricing adjustments that would reflect such costs. Therefore we don't anticipate a profitability decline due to this element. Actually it's an element that adds value at our business and profit lines, while the prudency is on a accumulated inventory of current contracts.

Hanzade Kilickiran: OK. Thanks, Murat. Thank you.

Operator: Your next question comes from the line of Ondrej Cabejsek of Wood & Company.

Ondrej Cabejsek: Hi. Thanks for taking the question. I want to ask about your mobile business, predominantly. It seems like, relative to last year and the years before, it's now Vodafone that's taking over as the operator that is attracting the most net additions and potentially MNPs. And it seems like this quarter you also – in terms of margin, you were also focused on trying to reverse that trend. It doesn't seem like that worked out in the way you might have wished for.

And relating to the auction as well, you highlighted that you spent, in relative terms, the least per MHz. But also, if you look at the spend relative to how many subscribers you have that puts pressure on you to deliver a return on that. So I was wondering, in terms of commercial activities and economies of scale going forward, what the strategy is or if there is any strategy to get back to the growth that we saw last year, potentially. Thank you.

Dehsan Erturk: Hi. This is Dehsan, Consumer Marketing. The first part of the question was actually regarding the growth rate of the players in the mobile market. Actually when you – I think you're specifically mentioning about quarter two of this year, because that was about 1.5 percentage points higher growth rate of Vodafone compared with Avea.

But that's specifically related to the seasonality impact of the prepaid subscribers, and the prepaid subscribers are more abundant in the competition. But on the other hand, Avea has more postpaid subscribers. That's about revenue growth.

About the subscriber growth, yes, as Rami mentioned in his presentation, we are now – for the first time in Avea's history we are also the choice of the first time in the Turkish market. That's a very exciting and interesting development for us.

Usually the market leaders is preferred by the first time in any country, but here, now, Avea started to gain, from the first time, market share as well as mobile number portability. So that's my comments about the growth rate comparison

Rami Aslan: Thank you, Dehsan. Ondrej, on the auction question, it's a good question. Basically, a couple of comments here.. I would like to stress that we did have a disadvantage in the past, and we have not only corrected it, but actually we are now leading very important bands.

So in 800, 900 and 1800, particularly 1800, we enjoy the largest band by far. That is critical for 4G and LTE and for the future as well. And we don't see this as a few quarters ahead of us. It's – don't forget this is 13-year availability. And that is very important for us for our growth.

Now, what we have spent, if you look at it from this – per spectrum we receive, it is very reasonable compared to our peers. At the same time, it looks that we have a fantastic growth potential. And our strategy falls exactly within that. And we have showed also discipline. We could have acquired even more spectrum if we wanted, but we believe that this is the perfect spectrum.

We got exactly what we wanted to allow us to have a strong growth, and we have great aspirations on the growth given the setup we have right now, the integration effort that we have done. We are extremely well set to grow significantly and capture very strong market share in that domain.

So we genuinely believe that the returns on our investments will be respectable and definitely it will surpass those of our peers.

Ondrej Cabejsek: That's understood. Thank you. If I may have one follow-up question, with the capacity both in mobile and your superior position in the market in terms of fixed networks, could you reveal any plans for wholesale in the market?

Because I assume that especially Turkcell might be interested, with their number of subscribers might be interested in buying capacity from you, both mobile and especially fixed because as I understand that they will need your backbone to support their 4G networks.

Rami Aslan: Ondrej, just to highlight, I'm not sure if there's sufficient awareness on that. But for many years, in the past, we have been actually providing wholesale services. So we do provide it and it's available, and it is provided at a regulated price as well. And we continue to provide those.

What I would like to highlight is that we've invested really heavily in anticipation of this major milestone for us and therefore the market and that positions us really well.

So as investors we are keen to continue to invest, to continue to reap the right returns on our investments and those who would like to use our infrastructure at proper commercial terms are also welcome to use them. So we're not trying to hinder anyone from the use of our infrastructure, we haven't and we will not, we won't plan to.

Ondrej Cabejsek: And do you have, sorry, do you expect a growth in that demand with 4G rollout I guess would be my question.

Rami Aslan: Of course, that's natural and we've seen this in other markets, the demand growth is going to be very significant and it will clearly mean a higher need for the wholesale service available from us.

But I would like also to stress that so far what has been required is a fraction of our network capacity, so our network capacity continues to be really vast and it is in 81 cities across the entire geography of Turkey. So we believe we're extremely well positioned to offer those services.

Ondrej Cabejsek: Thank you.

Operator: Your next question comes from the line of Ivan Kim of VTB Capital.

Ivan Kim: Yes hi, two questions from my side please. First on the dividend, where lira is one factor of course but assuming that you're going to pay in installments for the frequencies and also bearing in mind the payments for the Avea stake, your leverage will totally go up and peak some time in 2017. Do you think that the payout would have to drop because of that? Not necessarily a significant level let's say but I guess it would be hard to keep this 100 percent of distributable earnings a payout. That's the first question.

The second question is on Avea margins. The trend in the underlying margins, so excluding one-offs, has been on a small decline although Avea's scale is growing with double-digit revenue growth this year. So can you please elaborate a little on what's behind that and what should we expect going forward? Thank you.

Rami Aslan: Thank you Ivan. Your line was not really great so correct us if we missed anything from your question. But on the first question, I'll let Dehsan answer the second question on Avea margins, but on the first question related to installments. I would like to stress that as an operator we enjoy a very, very strong cash flow, as you have seen also even from this quarter. So our ability to pay those obligations and to deleverage ourselves quickly is quite high.

So we are not, this is a – don't forget this is a great opportunity for us and this is an investment that is one of a kind for us in terms of our ability to transform ourselves and our mobile infrastructure to one that is extremely competitive and enjoying a fantastic opportunity for growth.

So the leverage will peak, yes, but if you look at it, it's more FX-related than ability to pay for these obligations and it is an operator who has a strong cash flow to pay for such obligations, it will be Turk Telekom Group and we have no concerns there.

Thus, we don't anticipate any pressure. Of course, if the FX environment moves to a totally unfavorable environment then the leverage will continue to go up, then we might have a discussion but at the levels that we are at, you have seen that the balance sheet is extremely resilient, extremely strong, and our cash flow is extremely capable of deleveraging despite the challenges and the major FX impact that we have seen over the past three quarters.

The second question is Murat's, sorry.

Murat Kirkgoz: Sure. As you mentioned margins have declined slightly from 19 percent, 18 percent, and 17 percent in Q1, Q2 and Q3. Please bear in mind that network costs take is a step function, both in terms of CAPEX and also in the size of the network and we start our deploying our ISP-ready network of Avea, transforming the network, extending the site.

Therefore there is an increased step function related kind of costs in our cost base and that is very normal for a change of technology but that will be serving to an increased revenue base with LTE domain and it will be serving to a larger customer base.

In absolute terms we are happy with the cash flows of the Company and it is providing sufficient cash flows to cover for this CAPEX, excluding license; however, as you mentioned, a critical growth of the mass is also essential to sustain the new cost base that comes with this network investment.

Ivan Kim: Thank you.

Operator: Your next question comes from the line of Vibhor Kumar of Citigroup.

Vibhor Kumar: Yes, hi, thank you so much for the opportunity. I just have a clarification in the TV business. I was just clarifying your presentation from the last quarter and this quarter, I could see D-Smart has got some 700 thousand subscribers, if it's correct, if your current presentation is correct you just gained 56 thousand in this quarter. So I'm just wondering how this market dynamic works, where these other subscribers went? Thank you.

Rami Aslan: Thank you. I'll pass you to Cagri Donmez, our Chief TV Officer; he can actually address the market dynamics and answer your question.

Cagri Donmez: Yes, actually it's not I think the best method to actually evaluate our growth, based on D-Smart's loss of subscribers or growth. Obviously we acquired the Champions League and Europa League rights and they lost these rights to us but TV business in Turkey is not only premium sports so there are other dynamics as well.

What we are doing is we are actually differentiating now in our business in a few things. One is increasing the content value proposition, obviously Champions League is the major content in this but also we have increased our cinema channels as well to 13 cinema channels and the cinema market also is a big market in the Turkish pay TV market.

So in this quarter we have seen good growth but some of this growth is coming from obviously the Champions League but also we have launched the DTH platform and this is also helping the growth we have.

Vibhor Kumar: OK, but I could recall the previous commentaries on pay TV business, it was more of, you were talking about that you could acquire the majority of D-

Smart subscribers which I don't think is actually happening. So how should we look at the future growth in pay TV subscriptions?

Cagri Donmez: Now we have obviously the Champions League games started recently and some of the D-Smart subscribers have commitments so we are seeing a shift but this is going to be a linear effect not a one-time effect.

Onur Oz: Also Vibhor, can I add something, this is Onur. The D-Smart data that you're seeing in our presentation they have a lag, you don't see the latest D-Smart numbers in there because we take it from the regulators report. So you cannot really observe the decline or anything like that from other competition from the numbers that we give because they may be older data so.

Vibhor Kumar: Yes, I'm sorry in this, to drag on this, but I could see there's a difference of some 700 thousand subscribers and that's not basically going to you or maybe Digiturk. So it is the market itself had some, has reduced for the TV subscribers?

Cagri Donmez: Actually we have the BTK report on the number of subscribers for all operators and D-Smart is seeing a significant drop in their acquisition numbers because Champions League was their driver in growth. But the subscribers shift from one operator to another does not happen in a one-time effect, it takes some time, that's what we are seeing.

Vibhor Kumar: OK, thank you.

Operator: If you wish to ask a question, you will need to press star and one on your telephone.

Your next question comes from the line of Walid Bellaha of Barclays.

Walid Bellaha: Hi, good afternoon. Thank you very much for your presentation. I have four very brief questions. The first question is, is it possible to confirm the FX breakdown of your CAPEX, because you say that the increase in the revision of the CAPEX upwards was partly due to the FX. I just want to have a clear picture of what is in hard currencies and what is in Turkish lira.

And in terms also of net leverage, I remember the management had said at some point that up to 1.5x net leverage was a comfortable net leverage position. I understand that the cash flow is relatively strong and the cash available is also quite comfortable, but when I look at the CAPEX, for example, I notice that it's skewed towards Q4 so it's probably Q4 where we'll see probably free cash flow weaker and going forward it's still unclear how much CAPEX the company is expected to spend.

And lastly on the mobile segment, I would just try to better understand how you're targeting more growth. Will you be competing on prices or how would you differentiate yourself from the two other providers?

Rami Aslan: OK. Let me start with the second question related to the leverage and maybe I'll pass you back to Murat on the FX breakdown of CAPEX and then we can add just the growth for mobile.

On the leverage, Walid, if you look at the company's leverage in foreign currency, actually we continue to deleverage. Our cash flow is really strong, I really want to stress it and I'm not trying to undermine that but I want to overemphasize it.

Secondly, you have to look at two elements here. There is of course the FX impact, so the FX impact has caused the leverage to go up but it's not in any way an effect related to the strong ability to free cash flow that we have seen which we will continue to see even in Q4 as well.

But you also look at the second element which is licensing for the spectrum, this is a 13 year license and this is something that investing into this spectrum will transform our mobile business and will also remove a major disadvantage. And we've actually showed some good discipline here if you follow the dynamics of the tender that happened in August.

But with all of that we have transformed the Group into a totally different environment where the areas that are growing at double-digit, including mobile, will actually be fueled to go even faster and we are positioned extremely well to grow the mobile and increase our ability to outperform our competition in the mobile space.

So the combinations of things have, both the spectrum and FX have actually caused us this incremental blip in leverage but it's not a fundamental issue, it is, one, an opportunity to invest in something that will actually provide us a fantastic opportunity for faster growth, we have really strong aspirations for growth for 2016 and beyond and even in Q4.

At the same time the FX impact which is a function of certain uncertainties and macroeconomics and some emerging market challenges which naturally can be cyclical and will hopefully eventually subside with strong fundamentals of the economy that we operate under.

So the discipline will remain, it's a point that we continue to manage, we have demonstrated and explained to you in earlier quarters how we're managing the FX and how we try to manage the costs of our borrowings and make sure that we optimize and capitalize on any opportunity that will minimize the FX impact as well.

So we will continue to do that and we will continue to monitor the leverage but I can tell you that we are confident that, let's say that FX doesn't even improve, we are confident that we will continue to deleverage at a fast rate, not at a slow rate.

So hopefully that answers the second question. Shall we do the FX or the growth of mobile?

Murat Kirkgoz: So thank you for the question. Roughly about 55 percent to 60 percent of our CAPEX is denominated in hard currency and given the current devaluation we anticipate a portion of this in our guidance, but not the last quarters where we have restated some portion of this devaluation to be increasing the CAPEX guidance, that's for the market.

But more importantly, the most important element was to sustain the growth of our mobile business and utilize the LTE investment. The hard currency component is roughly one-third is in euros and two-thirds is in dollars and that I think answers your question in terms of hard currency.

For mobile margins …

Dehsan Erturk: So the question was how we are going to differentiate ourselves for further growth in mobile. Actually, thank you for the question. This is the fifth year that Avea has been growing in high double-digit figures and it has been doing that despite the disadvantage of the frequency. So think about it, now we don't have that disadvantage. So one of the major drawbacks in the business is the network experience which is not in place yet, so in fact it's going to be an advantage for us in 3G and more in 4G. So one of the things that we rely on is that we are going to provide at par and superior service in both 3G and 4G to our customers.

The second one is we will continue to focus on priority segments, the right products, the postpaid products, yields and traditional customers that are public servants because they are very valuable for us, and we are going to provide lifestyle value propositions for those priority segments.

And three, we are going to drive growth in fixed broadband penetrated families that have the TTNET products at their homes, we are going to create incremental value to those kinds of households.

And four, we are going to utilize our one-stop shop that we are providing of services of four major business, mobile, fixed voice, fixed broadband and television.

And finally, as you know we have very good smartphone penetration and the people who use smartphone actually they come to our, they prefer our, so we will continue to provide good and abundant experience in mobile data connectivity. This is about it. Thank you.

Rami Aslan: And coupled with the integration, I really want to stress also the integration impact. This year was a year of transformation for our Group, we have completed a major milestone in making Turk Telekom Group as the true leader, leading integrated operator in the country and in the region and that comes with great positioning for us.

Our ability to upsell, to cross-sell is second-to-none and we are extremely well positioned as a management team as well and the different layers of the management team have been put in place over the last couple of quarters as well. So now we are really well set and ready.

And I want to emphasize also that the experience that we will provide for mobile will start to come from December, not from – and the differentiation of Avea will start to come in December, so it's in about five weeks' time, and that is a great advantage that we will have and that we will transform the network capacity, the network capability and the network experience that the customers experience.

So you will see that this is a positioning that we are really looking forward to and hopefully, as we have demonstrated, that in tougher circumstances and a real disadvantaged environment we managed to grow for five years quarter-in quarter-out. Now without this disadvantage and it's a major disadvantage, we believe that our team is extremely experienced and positioned to capitalize on a great growth potential. And hopefully we will demonstrate that in the future calls.

Walid Bellaha: Does it – just a quick follow-up question, does it mean that this new value proposition I would say that will come in December, you will need to advertise it? And does it mean that we will see an increase in marketing expenses? Is that something that you think will happen?

Rami Aslan: Well, there should not be any significance here. It's in our plan, it's expected, we have managed ourselves according to that so there are no surprises for us and we are confident that we'll work within our plan, there's not going to be any one-offs or anything that's extraordinary for us to do that.

Walid Bellaha: OK, understood. Thank you very much.

Operator: Your next question comes from the line of Ksenia Mishankina of UBS.

Ksenia Mishankina: Hi, this is Ksenia Mishankina from UBS. Thank you for the presentation. I have several questions. Your interest expense has increased quite significantly for the nine months this year compared to last year. Could you please take us through the drivers and what steps do you plan to take to reduce it?

Could you please also indicate your CAPEX guidance for 2016?

And just a suggestion, if you could disclose your debt maturities by each year going forward that would be really helpful for us. Thank you very much.

Rami Aslan: Sorry, what was the last question after CAPEX guidance?

Ksenia Mishankina: Yes, just in terms of your debt maturities. Currently you disclose them in several brackets but if you could just disclose them by year, by each year that would be really helpful. Thank you.

Rami Aslan: OK. We will answer the first and third, for CAPEX 2016 we will provide that guidance, as we do every year, in the next call that will be in February. So we will provide you that guidance then. But maybe Murat you can cover the interest and the debt maturity questions?

Murat Kirkgoz: Yes, sure. So relative to the interest expenses, we have, as you will recall, we acquired İş Bank's shares in Q3 and the we start incur the business with the fair value of this liability and the future values as interest expenses. This is an important element that is restated into financial expenses.

And secondly, of course, we have paid out dividends of TL 1.8 billion end of Q2; that has resulted into a substantial reduction in our cash position in Turkish lira terms.

And thirdly, from a risk management perspective to reduce our exposure we have converted our hard currency – our cash position to a higher share in hard currency and also that has resulted into a reduction in the interest income.

So all these three elements actually have resulted into a slight increase in our financial expenses, but those were necessary actions to reduce exposures and also to manage the cash flows for the acquisition of Avea we have a long-term payment plan. So the fair value and the future value differential goes into the interest expenses. I hope this clarifies.

For the debt maturities, we don't disclose our annual debt redemption profile but I can tell that it is most evenly distributed so it's a balanced debt redemption schedule for the next five years. So there is no skewness or concentration in any of the years.

Ksenia Mishankina: Thank you very much.

Operator: Your next question comes from the line of Ilayda Atalay of Garanti Bank.

Ilayda Atalay: Good afternoon, thank you for the presentation. Yesterday you announced your decision to increase your subsidiary Avea's paid-in capital by TL 3 billion. How do you plan on financing it?

Rami Aslan: We plan to finance it through our cash flows from operations.

Ilayda Atalay: Nothing else? No bond issue or any more loans?

Rami Aslan: It is not required. We end this period with TL 2.8 billion cash and we have a strong cash flow from operations on our fixed line business so we believe this is sufficient to finance this short-term implication of the license fees.

Ilayda Atalay: All right, thank you.

Rami Aslan: Which demonstrates the point that the strong cash flow continues to support these obligations, Ilayda.

OK, next question.

Operator: Your next question comes from the line of Levent Bayar of HSBC.

Levent Bayar: Hi everyone, thanks for the presentation. I have two questions, I don't know if you answered them before during the call because I missed the presentation part but, the first one is ARPU of the fixed broadband, we are seeing that it's now at TL 41.7 and this is the smallest year-on-year growth.

I think this was because of the back-to-school period missing this year but have you been able to recover that on the October so far? So what would we be seeing in the Q4 in terms of ARPU of the broadband, can you provide a guidance on that?

And regarding the second question, ARPU of the mobile business. Do we expect to see an increase in the first quarter next year given the weakening in the macro environment of Turkey, especially on the GDP and purchasing power of the subscribers? Are you sure that we will be able to see a strong increase with the 4G rollout there? Thank you.

Rami Aslan: Levent, your second question was an increase in price you were asking in Q1, correct?

Levent Bayar: Yes.

Rami Aslan: OK. Let me start with the first question. For the first question, first of all, together with our own ISP TTNET and other ISPs in the market that we wholesale to help us grow the market, we have seen a slight ARPU dilution due to other ISPs being more active.

This is to us quite a positive trend actually because over the long term supporting the ISPs will help us grow in the market even more. So that's really the main driver. I'm not sure we can give guidance, we can't give guidance, I apologize for that level.

So the mobile ARPU, I'll pass you to Dehsan, he can comment on the ARPU.

Dehsan Erturk: Hi Levent, thank you for the question. Actually, as you know the wallet share of the mobile business in Turkey could be higher than this, so I think this new paradigm of the new technologies, new frequencies and also the changing lives of the consumers, because we are each day more connected and (we connect via) our smartphones, et cetera so this is a tremendous opportunity for our industry to increase its wallet share of the households, of the individuals.

So we bet on the increased usage, continued increased usage to bring in incremental revenues regardless of the macroeconomic situation, so we are expecting growth in ARPU next year as well. Thank you.

Levent Bayar: OK, thank you.

Operator: If you wish to ask a question, you will need to press star and one on your telephone.

Your next question comes from the line of Kitti Patushava of Nomura.

Kitti Patushava: Good afternoon, gentlemen, and thank you for the presentation. I have a small clarifying question regarding your frequency acquisition. What is the payment schedule for the frequencies? Do you have to pay it like as a lump sum or are there some deferrals?

Murat Kirkgoz: So the payment schedule is in four installments, which is equal. We will be paying the first installment in Q4 of this year and the remaining three will follow every six months afterwards. So it's November – October and April 2017.

Kitti Patushava: Thank you.

Operator: Your next question comes from the line of Vyacheslav Degtyarev.

Vyacheslav Degtyarev: Yes, thank you very much for the presentation. My question is with regards to the 4G plans, can you please specify your plans with regard to the timing for the 4G launch? Will it come simultaneously across the whole country or will you target particular cities at the first stage? So can you please elaborate on that?

And can you disclose the share of your smartphones that are already 4G ready? Thank you.

Rami Aslan: Sorry, what was the second question?

Vyacheslav Degtyarev: Sorry?

Rami Aslan: OK we got it, sorry we were not sure what the second question was, but it's 4G-ready smartphones. OK, I'll give you the first answer. The date that is set for all operators is April 1, clearly, as I mentioned, we are extremely eager to provide a differentiation and to make sure that we are investing in the right places as soon as possible and we're going with a very fast rollout.

So thus we have seen an acceleration and thus the earlier-than-anticipated CAPEX because now the dates are set as of August and we wanted to pull the trigger as soon as possible once we are clear on the dates of launch.

We do not actually disclose where we plan to start but this will be disclosed as we go, but what I can tell you and assure you that we are going at full speed and we want to make sure that our customers will enjoy the best possible services as soon as possible.

Dehsan, do you want to handle the smartphone question?

Dehsan Erturk: Actually the IT supporting devices, I think we're going to need to disclose it next quarter because of the fact that we have a couple of different categories in IT support, some of them are supporting 800 only, some of them are supporting dual band, et cetera, et cetera So we are going to disclose the numbers and penetration rates in the next quarters.

Vyacheslav Degtyarev: OK, thank you.

Operator: There appear to be no further questions waiting at this time sir.

Onur Oz: Thank you very much, everyone. This ends our call today and if you have any follow-up questions please do not hesitate to contact the Investor Relations department. Have a great day.

Rami Aslan: Thank you, everyone.

Operator: That does conclude this conference for today. Thank you for participating. You may all disconnect. Speaker lines please standby.

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